

Message Text

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ACTION EA-09

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TO SECSTATE WASHDC 9095

DEPARTMENT OF TREASURY WASHDC

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AMEMBASSY LONDON

AMEMBASSYPARIS

AMEMBASSYROME

AMCONSUL HONG KONG

USMISSION OECD PARIS

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PASS FEDERAL RESERVE, LABOR AND EXIMBANK

E.O. 11652: N/A

TAGS: EFIN, JA

SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS - WEEK OF MAY 6-12

1. SUMMARY: NEW MACHINERY ORDERS REGISTERED SHARP INCREASE IN MARCH FOR THIRD MONTH IN A ROW, A STRONG SIGN THAT REVIVAL OF DOMESTIC BUSINESS INVESTMENT IS UNDER WAY. UNEMPLOYMENT FELL AND JOB OFFERS ROSE IN MARCH AS RECOVERY CONTINUED TO BRING IMPROVEMENT IN LABOR MARKET. RECENT PRODUCTION INCREASES HAVE BROUGHT SUCCESSIVE MONTHLY DECLINES IN UNIT LABOR COSTS, AND THIS INDEX HAS NOW DROPPED BELOW YEAR-EARLIER LEVELS. NEVERTHELESS, PICKUP IN DOMESTIC CONSUMPTION REMAINS GRADUAL. APRIL AUTO SALES DECLINED SLIGHTLY AFTER REGISTERING SHARP INCREASE IN MARCH, AND AVERAGE PROENSITY TO SAVE REMAINS HIGH. END
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SUMMARY.

2. MARCH NEW MACHINERY ORDERS ROSE NEARLY 20 PERCENT FROM PRIOR MONTH ON SEASONALLY ADJUSTED BASIS. IT WAS THIRD CONSECUTIVE MONTH IN WHICH ORDERS FOR NEW MACHINERY, EXCLUDING SHIPS (JEI 337), HAD REGISTERED STRONG INCREASE. MARCH LEVEL OF ORDERS WAS 7.4 PERCENT ABOVE MONTHLY AVERAGE RECORDED IN BOOM YEAR OF 1973, ALTHOUGH CURRENT LEVEL OF ORDERS WOULD BE CONSIDERABLY LESS THAN IN THAT YEAR WHEN ADJUSTED FOR INTERVENING INFLATION. CONTINUATION IN MARCH OF RECENT STRONG INCREASES INDICATES THAT RECOVERY OF DOMESTIC BUSINESS INVESTMENT IS NOW WELL UNDER WAY.

NEW MACHINERY ORDERS, S.A.

	BIL YEN	PERCENT CHANGE FROM PRIOR MONTH
JAN	223.9	15.7
FEB	270.4	20.8
MAR	323.3	19.6

3. LABOR MARKET CONDITIONS CONTINUE TO IMPROVE. UNEMPLOYMENT RATE (JEI 379) DECLINED FOR FOURTH MONTH IN ROW, WHILE NUMBER OF UNEMPLOYED (JEI 378) DROPPED BELOW ONE MILLION MARK FOR FIRST TIME IN EIGHT MONTHS. JOB OFFERS TO APPLICANTS RATIO (JEI 385) ROSE TO 0.69; THIS RATIO, WHICH HAD REMAINED AS LOW AS 0.53 UNTIL DEC 1975 SHIFTED SHARPLY UPWARD DURING FIRST QUARTER OF 1976. ALTHOUGH LABOR MARKET CONDITIONS HAVE BEEN BRIGHTENING FOR SOME TIME, AS IS INDICATED BY FOUR CONSECUTIVE MONTHS OF BOTH DECREASE IN UNEMPLOYMENT RATE AND INCREASE IN JOB OFFERS TO APPLICANTS RATIO, GOJ HAD TENDED TO PLAY DOWN IMPROVING PICTURE. HOWEVER, WITH SPRING WAGE NEGOTIATIONS NOW LARGELY COMPLETED, GOJ (WITH MEDIA HELP) IS PAINTING A BRIGHTER PICTURE IN APPARENT EFFORT TO STRENGTHEN CONSUMER CONFIDENCE HERE. (NOTE: PRIME MINISTER'S OFFICE USES DIFFERENT SEASONAL ADJUSTMENT FACTORS THAN EPA. MARCH UNEMPLOYMENT RATE AS REPORTED BY PRIME MINISTER'S OFFICE WAS 1.94 PERCENT AND IS OFTEN CITED IN PRESS REPORTS.)

	JOB OFFERS TO APPLICANTS RATIO, S.A.	UNEMPLOYED, S.A. (1,000)	(RATE)
JAN	0.59	1,100	2.05
FEB	0.62	1,030	1.94
MAR	0.68	987	1.85

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4. UNIT LABOR COSTS (JEI 421) DECLINED ON SEASONALLY ADJUSTED BASIS IN MARCH. SECOND CONSECUTIVE MONTHLY DECREASE INDICATES RECENT SHARP RISE IN INDUSTRIAL PRODUCTION HAS CONTRIBUTED TO SIGNIFICANT IMPROVEMENT IN LABOR PRODUCTIVITY. ALTHOUGH UNIT LABOR COSTS HAD REGISTERED YEAR-EARLIER INCREASES IN TWO-DIGIT RANGE FROM MARCH 1974 THROUGH NOV 1975, PICTURE HAS CHANGED DRAMATICALLY IN LAST

FOUR MONTHS AND UNIT LABOR COSTS ARE NOW SLIGHTLY BELOW YEAR-EARLIER LEVELS.

	UNIT LABOR COST, S.A.	
	INDEX	PERCENT CHANGE FROM PRIOR MONTH
JAN	199.5	1.7
FEB	199.1	MIN 0.2
MAR	197.4	MIN 0.8

5. NEW AUTO REGISTRATIONS SEASONALLY ADJUSTED DECLINED 3.2 PERCENT IN APRIL, AFTER RECORDING A 15 PERCENT INCREASE IN PREVIOUS MONTH. DESPITE APRIL DECLINE, NEW CAR REGISTRATIONS DURING FIRST FOUR MONTHS OF 1976 WERE ONLY 5 PERCENT BELOW LEVEL OF SAME PERIOD LAST YEAR.

	SEASONALLY ADJUSTED		PERCENT CHANGE FROM PRIOR MONTH
	UNADJUSTED (1,000 CARS)	ADJUSTED (1,000 CARS)	
JAN	117.1	185.5	MIN 8.1
FEB	162.7	190.1	2.5
MAR	265.8	218.4	14.9
APR	191.1	211.5	MIN 3.2

REVISED SEASONALLY ADJUSTED SERIES FOR JAPANESE AUTO REGISTRATIONS, WHICH WAS RECENTLY PREPARED BY U.S. TREASURY OASIA RESEARCH, INDICATES THAT NOV-DEC 1975 SALES DECLINE WITH INTRODUCTION OF POLLUTION CONTROLS (AND CONSEQUENT HIGHER RETAIL COSTS) WAS GENERALLY SMALLER THAN EXPECTED. REVISED SERIES, WHICH UPDATES PREVIOUS SERIES REPORTED BY EMBASSY, INDICATES THAT DECLINES IN FINAL TWO MONTHS OF 1975 RANGED FROM 5 PERCENT TO 10 PERCENT, BARELY HALF OF THE PERCENT DECREASES INITIALLY ESTIMATED. NEW SERIES APPEARS TO CONTRADICT REPORTS IN JAPAN'S PRESS OF MAJOR SLUMP IN YEAR-END AUTO SALES. FOLLOWING TABLE SHOWS NEW PASSENGER CAR REGISTRATIONS FOR JAPAN ON SEASONALLY UNCLASSIFIED

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ADJUSTED BASIS FOR 1975.

(1,000 CARS, S.A.; PERCENT CHANGE FROM PRIOR MONTH IN PAREN)			
JAN 238.4 (MIN 1.2)	JULY 245.4 (6.7)		
FEB 236.7 (MIN 0.7)	AUG 195.3 (MIN 20.4)		
MAR 240.4 (1.6)	SEP 228.8 (17.2)		
APR 238.5 (MIN 0.8)	OCT 236.3 (3.3)		
MAY 218.6 (MIN 8.3)	NOV 224.7 (MIN 4.9)		
JUNE 229.9 (5.1)	DEC 201.8 (MIN 10.2)		

6. AVERAGE PROPENSITY TO SAVE, SEASONALLY ADJUSTED, DECLINED SLIGHTLY IN FEB. NEVERTHRLESS, PERCENTAGE OF DISPOSABLE INCOME SAVED REMAINS AT VERY HIGH LEVEL. AVERAGE PROPENSITY TO SAVE FROM DISPOSABLE INCOME IN JAPAN HAS TENDED TO INCREASE OVER THE LONG TERM, RISING FROM 10-15 PERCENT IN

EARLY 1960'S TO 15-18 PERCENT IN EARLY 1970'S, AND HAS
SOARED TO AROUND 24 PERCENT DURING CURRENT RECESSION.
ALTHOUGH EPA MONTHLY REPORT RELEASED YESTERDAY NOTES SOME
INCREASE IN CONSUMER SPENDING, FIGURES ON AVERAGE PROPENSITY
TO SAVE RELEASED LAST WEEK WOULD INDICATE THAT INCREASE
IN CONSUMER SPENDING IS LIKELY TO BE MODEST AND BE RESULT OF
GENERAL INCREASE IN INCOMES RATHER THAN SHARP DECLINE IN
PROPENSITY TO SAVE.

AVERAGE PROPENSITY TO SAVE, S.A.;
PERCENT OF DISPOSABLE INCOME

1975-DEC	20.2
1976-JAN	24.4 (REVISED)
FEB	23.5

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